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## **INTRODUCTION**

The Office of Internal Audit performed an audit of Sanilac County FIA for the period September 1, 2001 through November 14, 2002. The objective of our audit was to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Sanilac County FIA had 37 full time equated positions (FTE's) at the time of our review. Sanilac County FIA provided assistance to an average 2,836 recipients per month in FY 2001, with total assistance payments of \$3,328,838 for the fiscal year.

## **SCOPE**

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at Sanilac County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	State Emergency Relief (SER)
Direct Support Services	Client Processing
CIMS/ASSIST/LASR	IRS Information Security
Payroll and Timekeeping	Procurement Card

## **EXECUTIVE SUMMARY**

Based on our audit, we conclude that the Sanilac County FIA internal controls need improvement in order to provide management with reasonable assurance that assets are

safeguarded and transactions are executed in accordance with management's authorization. Client Information Management System access and security and ASSIST and LASR system security need improvement to strengthen controls. Sanilac County FIA also needs to reconcile the Cash with County Treasurer for the Social Welfare and Child Care Funds and determine the validity of three reserve accounts, County Programs, Undetermined Revenues, and Other Programs Cash Donations that are included on the Modified Accrual Basis Balance Sheet.

In a Memorandum dated November 26, 2002 the Zone Accounting Office informed the Office of Internal Audit that they have assisted Sanilac County in resolving the issues relating to the Balance Sheet Reserve Accounts identified in recommendation # 7 and that Sanilac County FIA is working with the Sanilac County Treasurer to resolve the cash reconciliation discrepancies identified in recommendation # 6.

### **LOCAL OFFICE RESPONSE**

The management of Sanilac County FIA has reviewed all findings and recommendations included in this report. They indicated in an e-mail message on January 23, 2002 that they are in general agreement with the report.

### **Cash Receipts**

#### **Mail Opening**

1. Sanilac County FIA has weakened internal controls over negotiable instruments received in the mail. One staff will be opening the mail in the reception area. Management informed us that this change is the result of staff reductions. Prior to the start of our review two staff opened the mail in the reception area as required by Internal Control Criteria dated June 2002; page 34, and Accounting Manual 431.

However, without two staff opening and recording the mail on the mail logs, there can be no assurance that all funds received in the mail are actually recorded on the mail logs.

WE RECOMMEND Sanilac County FIA have two staff open the mail as required by the Internal Control Criteria and Accounting Manual 431.

#### Preparation of the Mail Logs

2. Sanilac County FIA did not follow established procedures when recording mail receipts on the mail logs. Returned local office checks were recorded on the same mail logs with receipts that were to be deposited in the Social Welfare Fund. Twelve returned local office checks were entered on the FIA4729 (Daily Mail Record of Cash Receipts for Deposit) from 4/2002-10/2002.

Accounting Manual Item 431, page 1 requires the completion of three separate lists. One list is for all Department of Treasury warrants sent or returned to the local office for disposition, including locally issued checks returned to the local office. The second list is for EBT cards received at the local office and, the third list is for all other funds received for deposit in the Social Welfare Fund, Child Care Fund or Trust and Agency Fund.

WE RECOMMEND Sanilac County FIA enter returned local office checks on the mail list with warrants sent or returned to the local office as required by Accounting Manual Item 431.

### Disposition of Returned Local Office Checks

3. Sanilac County FIA did not always establish adequate control over the disposition of local office checks returned to the office. Workers were sometimes notified verbally that a local office check had been returned rather than receiving an FIA138 (Action Taken on State Treasurer's Warrants by Local Offices) as notification.

Workers should be notified in writing in all instances. Documenting the request for disposition instructions and the disposition of the checks with written instructions from the worker strengthens controls over the returned checks.

WE RECOMMEND Sanilac County FIA notify the workers in writing of the disposition of returned local office checks

### Disposition of Returned/Received State Warrants

4. Sanilac County FIA did not dispose of state warrants returned/received at the Local Office in ten days as required by Accounting Manual policy. Five (29%) of seventeen state warrants entered on the FIA61 (Record Disposition of Warrants) for the period 1/7-9/26/02 were not disposed of within the 10 days required by Accounting Manual Item 462, page 1. Four warrants were disposed of between 13-19 days and one in 30 days.

WE RECOMMEND Sanilac County FIA dispose of state warrants returned/received at the Local Office within 10 days as required by Accounting Manual Item 462, page 1.

## **Cash Disbursements**

### **Staff on Disbursing Account Signature Card**

5. Sanilac County FIA weakened internal controls over disbursements process by placing staff involved in the disbursing process on the disbursing bank account signature card.

The one fiscal staff, Office Manager, and fiscal backup staff that is transferring to an ES position were entered on the bank signature card along with the LO Director and two Family Independence Managers.

Internal control over the disbursement process is weakened when staff with fiscal responsibility are on the disbursing account signature card.

WE RECOMMEND Sanilac County FIA remove the Office Manager, fiscal staff, and the back up staff from the disbursing bank account signature card.

## **General Ledger**

### **Reconciliation of Cash with County Treasurer**

6. Sanilac County FIA is not resolving reconciling items with the county treasurer when reconciling the cash with county treasurer account for the Social Welfare (SWF) and Child Care Funds (CCF).

A review of the FIA3710 (Reconciliation of Cash with County Treasurer) for the SWF and CCF for August 2002 disclosed reconciling items dating back to 1999, 2000, and, 2001. Internal control criteria developed by the FIA dated June 2002 states that any items that do not clear the reconciliation within two months are to be resolved.

Failure to resolve reconciling items with the County Treasurer for the SWF and CCF cash accounts on a timely basis weakens cash controls and increases the risk that SWF and CCF funds will not properly accounted for.

WE RECOMMEND Sanilac County FIA resolve the reconciling items for the SWF and CCF county treasurer cash accounts that are dated 1999, 2000, and 2001 and resolve all other reconciling items on a timely basis as stated in the FIA Internal Control Criteria.

### **Modified Accrual Basis Balance Sheet**

#### **Modified Accrual Basis Balance Sheet Distribution and County Equity**

7. Sanilac County FIA did not use the LASR Modified Accrual Basis Balance Sheet for reporting Sanilac County's equity in the Social Welfare Fund (SWF) to the Family Independence Board and County Treasurer. Sanilac County used an in house balance sheet that reported a surplus in the county equity of \$28,929.76. Three reserve accounts, Reserve for County Programs (\$50,627.94), Reserve for Undetermined Revenues (\$15.00), and Reserve for Other Programs Cash Donations (\$940.10) reported on the LASR balance sheet were not included on the in house balance sheet. Inclusion of the three reserve accounts changes the county's equity in the SWF to a deficit of \$22,653.42, a difference of \$50,627.94.

Accounting Manual 402-3, page 2, requires a copy of the monthly LASR Modified Accrual Basis Balance Sheet (LR650) to be forwarded to the LO Director, the county Treasurer, and County Family Independence Board.

WE RECOMMEND Sanilac County FIA use the LASR Modified Accrual Basis Balance Sheet for reporting to the Family Independence Board and Sanilac County Treasurer as required by Accounting Manual 402-3.

WE ALSO RECOMMEND Sanilac County FIA analyze the Reserve for County Programs, Undetermined Revenue, and Other Programs Cash Donations to determine the status of the Reserve accounts.

Unidentified Accounts Receivable Due From State for State Admin.

8. Sanilac County FIA had a balance of \$1,976.14 in Accounts Receivable due from State for State Admin. as of September 30, 2002. Of this amount, auditors were unable to identify \$1,046.69. We were informed that this could represent items that were incurred prior to August 31, 2002, but we could not determine if they had been submitted for reimbursement.

WE RECOMMEND Sanilac County FIA analyze the Accounts Receivable Due from State for State Admin. to determine what the \$1,046.69 represents.

**Safe and Controlled Documents**

No findings in this area

**State Emergency Relief**

Supporting Documentation for Payments

9. Sanilac County FIA did not follow established procedures for State Emergency Relief (SER) payments submitted to the Fiscal Office for reconciliation with the FIA849, 93(A) Issuance Report (ES440). A review of the August 2002 ES440 Report disclosed six (14%) of forty-two payments that did not have original documentation attached to the Authorization Invoice (FIA849) on file in the Fiscal Office.

Internal Control Criteria dated 6/2002, page 40 for the FIA and Accounting Manual Item 404, page 3, require that an original invoice/bill/fax from the vendor be attached to the FIA849/screen print forwarded to the Fiscal Office for reconciliation to the ES440 report.

Attaching the original invoice/bill/fax for the amount to be paid to the Fiscal Office copy of the FIA849/screen print helps to ensure that payments are accurate and appropriate.

WE RECOMMEND Sanilac County FIA attach the original invoice/bill/fax to the Fiscal Office copy of the Authorization Invoice (FIA849) as required by Internal Control Criteria and Accounting Manual Item 404.

#### **Direct Support Services**

No findings in this area

#### **Client Processing**

No findings in this area

#### **CIS/ASSIST**

##### **Client Information Management System (CIMS) Security Agreements**

10. Sanilac County FIA did not have current and accurate Client Information Management System (CIMS) Security Agreements (FIA3974A) on file for some staff that access CIMS. Our review disclosed fourteen staff that had a status on the PF011 (Operator Identification Report) that was different than the status entered on the FIA3974A. Also, two staff had name changes and new FIA3974As were not prepared, the FIA3974A for one staff could not be located and one staff had not signed the FIA3974A.

CIMS Security Policy L-Letter L-97-063 requires an FIA3974A to be prepared for all new users of CIMS and for all current operators each time an enrollment change is proposed.

WE RECOMMEND Sanilac County FIA determine the correct status for the staff and obtain signed Client Information Management System (CIMS) Security Agreements (FIA3974A).

#### ASSIST Enrollment Profile/Security Agreements

11. Sanilac County FIA did not have current and accurate ASSIST Enrollment Profiles (FIA3720) on file for staff who accesses ASSIST.

Two staff had ASSIST job profiles reported on the ASSIST Monthly User Listing (VB9554) that was different than that entered on the ASSIST Enrollment Profile (FIA3720).

CIS Security Policy L-Letter L-97-063 requires an FIA3720 and FIA3721 to be prepared for all new users of ASSIST and for all current operators each time an enrollment change is proposed.

WE RECOMMEND Sanilac County FIA determine the correct status of the staff and obtain signed ASSIST Security Agreements (FIA3721) if required.

#### Reconciliation of Security Officer's Log Reports

12. Sanilac County FIA did not have independent staff reconcile the transactions on the CIMS (PD180) or the ASSIST (VB9173) Security Officer's Log report with revised CIMS (FIA3974A) or ASSIST (FIA3720) Enrollment Profile Security forms.

Internal Control Criteria dated June 2002 established by the Family Independence Agency requires a complete reconciliation of the Security Officer's Log Reports, PD180 and VB9173, with the CIMS and ASSIST Enrollment Profile forms signed by management or supervision. Staff with inquiry only capability, or staff with update capability that is not the Security Coordinator, performs the reconciliation.

WE RECOMMEND Sanilac County FIA have staff other than the Security Coordinator reconcile the Client Information Management System (CIMS), (PD180) and ASSIST (VB9173) Security Officer's Log Reports with the CIMS (FIA3974A) and ASSIST (FIA3720) Enrollment Profile /Security Agreements.

#### Review of the Assist Security Violation Report (VB9163)

13. Sanilac County FIA did not have the ASSIST Security Officer review the ASSIST Security Violation Report (VB9163) for security violations. This report is system generated each day a violation occurs. The security officer strengthens ASSIST system security when there is a current review of any security violations.

WE RECOMMEND Sanilac County have the ASSIST Security Officer review the ASSIST Security Violation Report (VB9163).

#### Review of PF011 Report

14. Sanilac County FIA did not have supervisory staff review the Client Information Management System (CMIS) Operator Identification Report (PF011)

Internal Control Criteria for FIA requires the PF011 report be reviewed and certified by management/supervision to verify the access on the report agrees with the user's current job function.

WE RECOMMEND Sanilac County FIA have management/supervision review the Operator Identification Report (PF011) in order to verify that access to the Client Information Management System (CIMS) agrees with current job functions for staff.

Reconciliation of the Transaction Control Listing (MA010)

15. Sanilac County FIA did not reconcile the transactions listed on the Transaction Control Listing (MA010) report to the case record documentation. The current reconciliation is performed by matching the MA010 with a screen print.

Reconciliation of the transactions listed on the MA010 report to case record documentation provides assurance that the transactions are justified and accurate.

WE RECOMMEND Sanilac County FIA reconcile the transactions listed on the Transaction Control Listing (MA010) report to the case record documentation.

Reconciliation of the LASR Security Officer's Log (LR853) Report

16. Sanilac County FIA did not have staff reconcile the LASR Security Officer's Log (LR853) report with the LASR Security Access Request (FIA84).

Internal Control criteria dated June 2002 established by FIA and L-letter 02-088-Systems requires a complete reconciliation of the LASR Security Officer's Log Report (LR853) with the LASR Security Access Request (FIA84).

WE RECOMMEND Sanilac County FIA have staff reconcile the LASR Security Officer's Log Report (LR853) with the LASR Security Access Request (FIA84) as required by Internal Control Criteria and L-Letter 02-088-Systems.

### **IRS Information Security**

#### **Control of Forms to Maintain Confidentiality**

17. Sanilac County FIA did not follow FIA procedures for safeguarding the confidentiality of Internal Revenue Service (IRS) Data.

Our review disclosed one entry on the Internal Revenue Service Data Control Sheet (FIA448) with no disposition or Unearned Income Notice (FIA4487) on file. There was one FIA4487 on file that had not been entered on the FIA4488 and six FIA4487s on file that were dated six months prior.

Program Administrative Manual (PAM) Item 803 states FIA policy and procedures for controlling information received from the Internal Revenue Service.

WE RECOMMEND Sanilac County FIA comply with the policies and procedures established in Program Administration Manual Item 803 for safe guarding the confidentiality of Internal Revenue Service information.

### **Payroll and Timekeeping**

#### **Payroll Certification**

18. Sanilac County FIA did not establish adequate control over the payroll review and certification process.

The time keepers at Sanilac County FIA certified the payroll on the Data Collection and distribution System (DCDS) before the payroll was reviewed and approved by management responsible for certifying the payroll.

Internal Control criteria June 2002, page 57, requires the payroll be certified on DCDS after the authorized certifier reviews and approves the Time and Attendance Summary Report (HR332A).

WE RECOMMEND Sanilac County FIA certify the payroll on the Data Collection Distribution System (DCDS) after the authorized certifier has reviewed and approved the payroll.

#### Payroll Reconciliation

19. Sanilac County FIA did not reconcile the Time and Attendance Summary Report (HR332A) with the Employee Time and Attendance Report (FIA4299). Internal Control Criteria dated June 2002, page 54, states that the HR332A printed on the first Friday of a pay period for the preceding pay period after it has been certified and released on DCDS be reconciled with the individual FIA4299s.

WE RECOMMEND Sanilac County FIA reconcile the Time and Attendance Summary Report (HR332A) with the Individual Employee Time and Attendance Report (FIA4299).

#### Procurement Card

No findings in this area